

## IP Common Stock

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PROSPECTUS

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3,000,000 Shares  
Illinois Power Company  
Common Stock  
(Without Par Value)

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Outstanding shares of Common Stock are, and the shares offered hereby will be, listed on the New York and Midwest Stock Exchanges. The reported last sale price of the Common Stock on the New York Stock Exchange on July 10, 1985 was \$26½ per share.

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Issuance and sale of the Common Stock are subject to obtaining the authorization of the Illinois Commerce Commission. The Company has applied for such authorization.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Company(1)
Share	\$26.50	\$ .34	\$26.16
Total	\$79,500,000	\$1,020,000	\$78,480,000

Before deduction of expenses payable by the Company estimated at \$175,000.

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The shares of Common Stock are offered by the several Underwriters when, as and if issued by the Company and by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the Common will be ready for delivery on or about July 18, 1985.

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First Boston Corporation  
Merrill Lynch Capital Markets  
Salomon Brothers Inc

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The date of this Prospectus is July 11, 1985.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERSEE AND EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, ON THE MIDWEST STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE CONTINUED AT ANY TIME.

#### AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission ("Commission"). Reports, proxy statements and other information filed by the Company with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C.; Everett M. Smith Building, 219 South Dearborn Street, Chicago, Illinois; Room 1100, Federal Building, New York, New York; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California; and copies of such material can be obtained from the Public Reference Service of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Reports, proxy statements and other information concerning the Company may also be obtained from the offices of the New York Stock Exchange, 20 Broad Street, New York, New York and the Chicago Stock Exchange, 120 South La Salle Street, Chicago, Illinois, on which exchanges certain of the Company's securities are listed.

#### DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed by the Company with the Securities and Exchange Commission are incorporated herein by reference:

- (a) The Company's Annual Report on Form 10-K for the year ended December 31, 1984 (File No. 1-3004).
- (b) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1985 (File No. 1-3004).
- (c) The Company's Current Report on Form 8-K dated June 5, 1985 (File No. 1-3004).
- (d) The description of the Company's Common Stock contained in its Registration Statement on Form 10 filed under the Securities Exchange Act of 1934 (File No. 1-3004).

All documents subsequently filed by the Company pursuant to Section 13(a), 13(c), 14(a) of the Securities Exchange Act of 1934 prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference into this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom a copy of this Prospectus is delivered, on the written or oral request of any person, a copy of any or all of the documents incorporated above which have been or may be incorporated in this Prospectus by reference, other than the documents which are not specifically incorporated by reference into the information incorporated herein. Requests for such copies should be directed to Mr. A. E. Gray, Vice President, Illinois Power Company, 500 South 27th Street, Decatur, Illinois 62525, telephone number 312-426-1111.

## SUMMARY INFORMATION

The material below is qualified in its entirety by the detailed information and financial statements (including the notes thereto) appearing elsewhere in the Prospectus or included in the documents incorporated in such Prospectus by reference.

## THE OFFERING

Shares offered .....	3,000,000 shares of Common Stock
Shares of Common Stock Outstanding as of May 31, 1985 .....	58,004,799
Trading Market .....	New York and Midwest Stock Exchange (symbol: IPC)
Price Range from January 1, 1985 through July 10, 1985 .....	\$27 1/2—21 1/2
Market value per share of Common Stock as of May 31, 1985 .....	\$24.45
Estimated Annual Dividend Rate .....	\$2.64

## ILLINOIS POWER COMPANY

Business .....	Electric and gas utility
Service Area .....	15,000 square miles in the State of Illinois
Customers at December 31, 1984 .....	Electric—533,352; Gas—381,710
Energy Distribution for 1984 .....	63.3 % electric and 36.7 % gas
Electric Generating Capacity (summer) .....	3,742,000 kilowatts
Fuels Used in Electric Generation during 1984 .....	Coal—99.3 %; Oil & Gas—0.7 %

## FINANCIAL INFORMATION

(Thousands except per share amounts)

## STATEMENT INFORMATION:

	Year Ended December 31					12 Months Ended May 31, 1985(a) (Unaudited)
	1980	1981	1982	1983	1984	
Operating Revenues ..	\$883,370	\$964,292	\$1,106,775	\$1,278,259	\$1,280,537	\$1,221,001
Income Applicable to Common ..	\$ 94,493	\$107,516	\$ 136,498	\$ 184,096	\$ 210,221	\$ 206,610
Unaffiliated Shares Outstanding .....	32,906	37,844	44,840	48,474	52,315	54,980
Earnings Per Share of Common Stock ....	\$ 2.87	\$ 2.84	\$ 3.04	\$ 3.80	\$ 4.02	\$ 3.76
Dividends Per Share of Common Stock ....	\$ 2.355	\$ 2.405	\$ 2.48	\$ 2.52	\$ 2.64	\$ 2.64

Capitalization, May 31, 1985, as adjusted for the estimated net proceeds of \$78,305,000 from this Common Stock issue and from \$100,000,000 of revolving bank loans issued on June 12, 1985:

	Amount	Percentage
Long-Term Debt .....	\$1,761,058	48.1 %
Preferred Stock (not subject to mandatory redemption) .....	315,171	8.6
Preferred Stock (subject to mandatory redemption) .....	86,000	2.4
Common Stock Equity .....	1,496,322	40.9
Total Adjusted Capitalization .....	<u>\$3,658,551</u>	<u>100.0 %</u>

In the opinion of the Company all adjustments, consisting only of normal recurring adjustments, have been made for a fair statement of the results for the unaudited twelve-month period ended May 31, 1985.

## THE COMPANY

Illinois Power Company was incorporated under the laws of the State of Illinois on May 25, 1923. It is engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in the State of Illinois. Its service area is a widely diversified industrial and agricultural area comprising approximately 15,000 square miles in northern, central and southern Illinois. Electric service is provided at retail to 312 incorporated municipalities, adjacent suburban and rural areas and numerous unincorporated municipalities having an aggregate population of approximately 1,410,000. Gas service is provided to 258 incorporated municipalities, adjacent suburban areas and numerous unincorporated municipalities having an aggregate population of approximately 1,080,000. The larger cities served include Decatur, East St. Louis (gas only), Champaign, Danville, Belleville, Granite City, Bloomington (electric only), Galesburg, Urbana and Normal (electric only). The executive offices of the Company are located at 500 South 27th Street, Decatur, Illinois 62525, and its telephone number is 217-424-6600.

## USE OF PROCEEDS AND CONSTRUCTION PROGRAM

The proceeds from the sale of the 3,000,000 shares of Common Stock ("New Common Stock") will provide the Company with funds to reimburse its treasury for capital expenditures theretofore made and will be applied toward its continuing construction program.

This construction program includes the construction of the Company's Clinton power station. The Company continues to expect to load fuel at the Clinton power station as scheduled in January, 1986. However, actual construction expenditures for the Clinton power station from October 1984 through March 1985 have exceeded the expenditures estimated for that period by approximately \$110,000,000. At March 31, 1985, actual expenditures exceeded estimated expenditures by approximately \$50,000,000. It is not anticipated that these expenditures will be recovered in future months, but rather that actual monthly expenditures will continue to exceed monthly estimates. Accordingly, the Company's construction expenditures during the period from January 1, 1985 through December 31, 1989, the ownership interest of the Company in the Clinton power station and the Company's required expenditures during that period will vary from the amounts provided herein.

The Company has not made an estimate of the amount by which the total actual expenditures will exceed the cost estimate for the Clinton power station, and it has no plans to revise the present formal cost estimate due to the relatively short period of time remaining before fuel load.

The major factors causing actual expenditures to exceed budgeted construction expenditures are increases in the scope of work related to both the completion of final design of the Clinton power station and the additional efforts required to meet regulatory requirements.

The estimated cost of the Company's construction program during the period January 1, 1985 through December 31, 1989, including allowance for funds used during construction, is \$1,345,000,000, of which \$495,000,000 is estimated for the year 1985, and is based on the cost estimate now in effect for the Clinton power station excluding the effects of variances experienced to date as well as any future variances between this cost estimate and actual expenditures.

The Clinton power station received a full construction permit from the Nuclear Regulatory Commission ("NRC") in 1976 and the construction schedule and cost estimate for the Clinton power station have been revised several times during the course of construction. The construction schedule is based on projected fuel load in January, 1986, and commercial operation in July, 1986. In October, 1984, the Company announced

The revised cost estimate now in effect for the Clinton power station. Under that cost estimate, the estimated cost of the Company's ownership interest in the Clinton power station is \$2,698,000,000. This estimate assumes an increase in the amount of construction work in progress ("CWIP") included in electric rate base from \$625,000,000 to \$1,235,000,000, as requested in the Company's rate case now pending before the Federal Energy Regulatory Commission ("FERC"). The estimated construction expenditures for the five-year period include additional cost assumed for a phase-in of the total plant cost into electric rate base after the in-service of the Clinton power station. The estimates are based on the current rate for calculating the allowance for funds used during construction.

On October 5, 1984, the Company and the two cooperative associations which own the remaining portion of the Clinton power station signed a series of agreements to coordinate resources to meet their long-range electrical energy objectives. One agreement contains a \$450,000,000 limit on the cooperatives' investment in the direct costs (i.e., costs exclusive of financing costs) of placing the Clinton power station in commercial operation, with proportionate adjustment downward of their ownership share to the extent that \$450,000,000 is less than 20% of the total direct costs actually incurred. This limit was reached in early 1985 and based on the revised cost estimate for the Clinton power station now in effect, this limit reduces the ownership share of the cooperatives to 18%.

The Company expects to complete, obtain the required operating license for, and place in commercial operation the Clinton power station; however, if any unforeseen or unexpected development should occur which would prevent or delay any of these actions, the Company could be materially adversely affected.

The Company's presently scheduled construction program may change because of load growth changes, and construction costs, and regulatory contingencies. Estimated expenditures may also be affected by greater than anticipated cost escalation, additional expenditures for environmental and other facilities, increasing delays for the Clinton power station, and acceleration or delay of portions of the program.

The Company's current load projections indicate that no replacement or additional generating units will be needed, after the Clinton power station comes on-line, until late in the 1990's. Consequently, no expenditures for generating capacity other than the Clinton power station are reflected in the estimated expenditures for the five-year period.

The estimated construction expenditures during the period January 1, 1985 to December 31, 1989, together with the repayment of maturing currently outstanding long-term debt and redeemable preferred securities aggregating approximately \$191,000,000 and sinking fund requirements of approximately \$25,000,000, require expenditures by the Company of approximately \$1,561,000,000. These estimates are based on the cost estimate now in effect for the Clinton power station, do not include the effects of variances experienced or any future variances between this cost estimate and actual expenditures and do not reflect payments of the borrowing under the bank credit agreements described below. These estimates will also be affected by changes in costs, kilowatt-hour and therm sales, and the timing and amount of rate increases from which were assumed in preparing the estimates. Actual results may vary materially from the estimates.

On June 12, 1985, the Company borrowed \$100,000,000 under certain bank credit agreements to partially satisfy its external financing requirements. This borrowing, which is now on a revolving basis, is convertible by the Company on or prior to August 1, 1987 into intermediate term loans payable in equal installments during the three years after conversion. The revolving period may be extended beyond August 1, 1987 by agreement with the banks.

Additional external financing will be required as a result of the effects of variances experienced as well as future variances between this cost estimate and actual expenditures. The types, amounts and timing of future external financings during this period cannot be determined at this time. The issuance of securities will depend upon market conditions and the ability of the Company to meet its obligations, preferred stock dividend coverage requirements and other covenants contained in the Company's Charter and Restated Articles of Incorporation. The Company currently has a shelf registration on file with the Securities and Exchange Commission for the public offering and sale of up to an additional \$100,000,000 of its first mortgage bonds.

#### ELECTRIC RATE CASE

On September 14, 1984, the Company filed with the ICC for an increase in electric rates. The Company's original filing proposed an increase of 19.3% or additional annual revenues of \$1,235,000,000 based upon estimated usage for a test year ended June 30, 1986, and a request that the electric rate base included in electric rate base be increased from \$625,000,000 to \$1,235,000,000. A decision was rendered in August, 1985.

#### NEW UTILITY LEGISLATION

The Regulatory Agency Sunset Act of Illinois provides that the Illinois Public Utilities Act, as amended effective December 31, 1985, unless the Illinois General Assembly authorizes its continuation beyond December 31, 1985, the Illinois General Assembly passed an Act in relation to public utilities amending the Illinois Public Utilities Act, among other things, and enacting a new Act to be known as "The Public Utilities Act". This legislation, if signed by the Governor, will become effective on January 1, 1986. The Act in its present form includes many changes to the current approach to regulation of utilities, including increased ICC and other governmental authority over utility planning, forecasting and certification; revisions in judicial review procedures pertaining to ICC decisions; and some restructuring of administrative functions. It is not possible at this time to predict what changes, if any, the Governor will make to the legislation utilizing his amendatory veto powers, and whether the Illinois General Assembly would approve or override any such changes.

#### COMMON STOCK DIVIDENDS AND PRICE RANGE

The Company has paid quarterly cash dividends on its Common Stock in each year since 1961. A quarterly dividend of 66¢ per share was declared on June 6, 1985 payable on August 1, 1985, to holders of record on July 10, 1985. Holders of the New Common Stock will not be entitled to receive dividends until the Company has paid dividends for three consecutive years. The Company intends to continue to pay quarterly cash dividends on its Common Stock but the timing of such dividends will depend upon the Company's earnings, capital requirements, and other factors.

The following table indicates the reported high and low sales prices of the Common Stock of the Company on the Composite Tape as reported in the Midwest Edition of The Wall Street Journal.

	1983		1984	
	High	Low	High	Low
First Quarter .....	24 1/4	22 3/4	21 1/4	17 1/4
Second Quarter .....	23 3/4	21 1/2	19 1/4	17 1/4
Third Quarter .....	23 3/4	20	21 1/4	17 1/4
Fourth Quarter .....	23 3/4	19 3/4	23 3/4	20 1/4

\* Through July 10, 1985

enced to date. The reported last sale price of the Common Stock on the New York Stock Exchange on July 10, 1985  
its and timing of \$26 1/4 per share. The book value of the Common Stock at May 31, 1985, was \$24.45 per share.  
ice of additional

### AUTOMATIC REINVESTMENT PLAN

The Company has an Automatic Reinvestment and Stock Purchase Plan whereby holders of its securities  
the interest and have an opportunity to purchase new issue shares of its Common Stock by having their cash dividends and  
pany's Mortgage bond interest automatically reinvested in such stock. The price to be paid for each share of Common Stock  
effect with the purchased with cash dividends and bond interest under such Plan will be 95 % of the average of the high and  
\$100,000,000 low prices of such stock on the Composite Tape on the cash dividend or bond interest payment date or the  
succeeding date the New York Stock Exchange is open for business if the New York Stock Exchange is  
of \$139,100,000 open on such payment date. The Company reserves the right to suspend, modify or terminate such Plan  
amount of CWR any time.  
n is expected in

### LEGAL OPINIONS AND EXPERTS

The validity of the New Common Stock will be passed upon for the Company by Schiff Hardin & Waite,  
Act is repealed 100 Sears Tower, 233 South Wacker Drive, Chicago, Illinois 60606, and for the Underwriters by Winston &  
ce June 30, 1985, One First National Plaza, Chicago, Illinois 60603.

The statements as to matters of law and legal conclusions which are a part of the description of the  
Public Utilities Company's Common Stock contained in its Registration Statement on Form 10 (which is incorporated in this  
the legislation in prospectus by reference) have been prepared under the supervision of, and reviewed by, Schiff Hardin &  
These include Waite, counsel for the Company, and such statements are made on the authority of that firm. The statements  
culation process to matters of law and legal conclusions made in the Company's Annual Report on Form 10-K for the year  
cturing of ICC ended December 31, 1984 (which is incorporated in this Prospectus by reference) in the third paragraph  
Governor might relating to franchises) under the item "Business," under the captions "Environmental Matters" (excluding  
General Assembly under the subcaption "Environmental Expenditures") and "Regulation" under the item "Business," and  
under the item "Legal Proceedings" were prepared under the supervision of and reviewed by Schiff Hardin  
Waite, and such statements were made on the authority of the firm.

The audited financial statements incorporated in this Prospectus by reference to the Company's Annual  
r since 1947 Report on Form 10-K for the year ended December 31, 1984 have been so incorporated in reliance on the  
to stockholders report of Price Waterhouse, independent accountants, given on the authority of said firm as experts in  
e this dividend  
the amount  
ancial cond

on Stock of  
ournal:

1985	
High	Low
25 1/4	21
27 1/4	23 1/4



## UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Company the following respective numbers of shares of New Common Stock:

<u>Underwriter</u>	<u>Number of Shares</u>
The First Boston Corporation .....	1,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated .....	1,000,000
Salomon Brothers Inc .....	1,000,000
Total .....	<u>3,000,000</u>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters will be obligated to purchase all of the shares if any are purchased.

The Company has been advised by the Underwriters that they propose to offer the shares of New Common Stock to the public initially at the public offering price determined as provided on the cover page of this Prospectus and, through the Underwriters, to certain dealers at such price less a concession of not more than \$.22 per share; that the Underwriters and such dealers may allow a discount of not more than \$.10 per share on sales to other dealers; and that the public offering price and concession and discount to dealers may be changed by the Underwriters.

The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

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No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus, in connection with the offering made by this Prospectus, and, if given or made, such information or representation must not be relied upon. This Prospectus does not constitute an offering of any securities other than those to which it relates, or an offering of those to which it relates to any person in any jurisdiction in which such offering may not be lawfully made. The delivery of this Prospectus at any time does not imply that the information herein is correct as of any time subsequent to its date.



Illinois Power  
Company

3,000,000 shares

Common Stock  
(Without Par Value)

PROSPECTUS

The First Boston Corporation  
Merrill Lynch, Pierce, Fenner & Smith  
Salomon Brothers

IP TOPrS

## PROSPECTUS

**ILLINOIS  
POWER**

## 4,000,000 Preferred Securities

**ILLINOIS POWER FINANCING I**8% Trust Originated Preferred Securities<sup>SM</sup> ("TOPrS<sup>SM</sup>")

(Liquidation amount \$25 per Preferred Security)

guaranteed to the extent set forth herein by

**ILLINOIS POWER COMPANY**

The 8% Trust Originated Preferred Securities (the "Preferred Securities") offered hereby represent preferred undivided beneficial interests in the assets of Illinois Power Financing I, a statutory business trust formed under the laws of the State of Delaware ("Illinois Power Financing I" or the "Trust"). Illinois Power Company, an Illinois corporation ("Illinois Power"), will directly or indirectly own all the common securities (the "Common Securities") and, together with the Preferred Securities, the "Trust Securities") representing undivided beneficial interests in the assets of Illinois Power Financing I. Illinois Power Financing I exists for the sole purpose of issuing the Preferred Securities and Common Securities and investing the proceeds thereof in an equivalent amount of 8%  
(continued on next page)

**SEE "RISK FACTORS" COMMENCING ON PAGE 5 OF THIS PROSPECTUS FOR CERTAIN INFORMATION RELEVANT TO AN INVESTMENT IN THE PREFERRED SECURITIES, INCLUDING THE PERIOD AND CIRCUMSTANCES DURING AND UNDER WHICH PAYMENTS OF DISTRIBUTIONS ON THE PREFERRED SECURITIES MAY BE DEFERRED AND THE RELATED UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF SUCH DEFERRAL.**

Application has been made to list the Preferred Securities on the New York Stock Exchange. If so approved, trading of the Preferred Securities on the New York Stock Exchange is expected to commence within a 30-day period after the date of this Prospectus. See "Underwriting."

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

	Initial Public Offering Price(1)	Underwriting Commission(2)	Proceeds to Trust(3) (4)
Per Preferred Security .....	\$25	(3)	\$25
Total .....	\$100,000,000	(3)	\$100,000,000

- (1) Plus accrued distributions, if any, from January 17, 1996.
- (2) Illinois Power Financing I and Illinois Power have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (3) In view of the fact that the proceeds of the sale of the Preferred Securities will be invested in the Subordinated Debentures, Illinois Power has agreed to pay to the Underwriters as compensation (the "Underwriters' Compensation") for their arranging the investment therein of such proceeds \$.7875 per Preferred Security (or \$3,150,000 in the aggregate); *provided*, that such compensation for sales of 10,000 or more Preferred Securities to a single purchaser will be \$.50 per Preferred Security. Therefore, to the extent of such sales, the actual amount of Underwriters' Compensation will be less than the aggregate amount specified in the preceding sentence. See "Underwriting."
- (4) Expenses of the offering which are payable by Illinois Power are estimated to be \$400,000.

The Preferred Securities offered hereby are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of the Preferred Securities will be made only in book-entry form through the facilities of The Depository Trust Company, on or about January 17, 1996.

**Merrill Lynch & Co.****Smith Barney Inc.****Dean Witter Reynolds Inc.****A.G. Edwards & Sons, Inc.****PaineWebber Incorporated**

The date of this Prospectus is January 11, 1996.

<sup>SM</sup> "Trust Originated Preferred Securities" and "TOPrS" are service marks of Merrill Lynch & Co., Inc.

(continued from previous page)

Junior Subordinated Deferrable Interest Debentures due 2045 (the "Subordinated Debentures") of Illinois Power. Upon an event of a default under the Declaration (as defined herein), the holders of Preferred Securities will have a preference over the holders of the Common Securities with respect to payments in respect of distributions and payments upon liquidation, redemption and otherwise.

Holders of the Preferred Securities are entitled to receive cumulative cash distributions at an annual rate of 8% of the liquidation amount of \$25 per Preferred Security, accruing from the date of original issuance and payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year, commencing March 31, 1996 ("distributions"). The payment of distributions out of moneys held by Illinois Power Financing I and payments on termination of Illinois Power Financing I or the redemption of Preferred Securities, as set forth below, are guaranteed by Illinois Power (the "Guarantee") to the extent Illinois Power Financing I has funds available therefor as described under "Description of the Preferred Securities Guarantee." The obligations of Illinois Power under the Guarantee are subordinate and junior in right of payment to all other liabilities of Illinois Power and *pari passu* with the most senior preferred stock issued, from time to time, if any, by Illinois Power. The obligations of Illinois Power under the Subordinated Debentures are subordinate and junior in right of payment to all present and future Senior Indebtedness (as defined herein) of Illinois Power, which aggregated approximately \$2.2 billion at September 30, 1995, and rank *pari passu* with Illinois Power's general unsecured creditors other than holders of Senior Indebtedness.

The distribution rate and the distribution payment date and other payment dates for the Preferred Securities will correspond to the interest rate and interest payment date and other payment dates on the Subordinated Debentures, which will be the sole assets of Illinois Power Financing I. As a result, if principal or interest is not paid on the Subordinated Debentures, no amounts will be paid on the Preferred Securities. If Illinois Power does not make principal or interest payments on the Subordinated Debentures, Illinois Power Financing I will not have sufficient funds to make distributions on the Preferred Securities, in which event, the Guarantee will not apply to such distributions until Illinois Power Financing I has sufficient funds available therefor.

Illinois Power has the right to defer payments of interest on the Subordinated Debentures by extending the interest payment period on the Subordinated Debentures at any time for up to 20 consecutive quarters (each, an "Extension Period"). If interest payments are so deferred, distributions on the Preferred Securities will also be deferred. During such Extension Period, distributions will continue to accrue with interest thereon (to the extent permitted by applicable law) at an annual rate of 8% per annum compounded quarterly, and during any Extension Period, holders of Preferred Securities will be required to include deferred interest income in their gross income for United States federal income tax purposes in advance of receipt of the cash distributions with respect to such deferred interest payments. There could be multiple Extension Periods of varying lengths throughout the term of the Subordinated Debentures. See "Description of the Subordinated Debentures — Option to Extend Interest Payment Period." See "Risk Factors — Option to Extend Interest Payment Period" and "United States Federal Income Taxation — Original Issue Discount." In the event of any such deferral, the holders of the Preferred Securities do not have the right to appoint a special representative or trustee or otherwise act to protect their interests.

The Subordinated Debentures are redeemable by Illinois Power, in whole or in part, from time to time, on or after January 31, 2001, or at any time in certain circumstances upon the occurrence of a Tax Event (as defined herein). If Illinois Power redeems Subordinated Debentures, Illinois Power Financing I must redeem Trust Securities having an aggregate liquidation amount equal to the aggregate principal amount of the Subordinated Debentures so redeemed at \$25 per Preferred Security plus accrued and unpaid distributions thereon (the "Redemption Price") to the date fixed for redemption. See "Description of the Preferred Securities — Mandatory Redemption." The Preferred Securities will be redeemed upon maturity of the Subordinated Debentures. The Subordinated Debentures mature on January 31, 2045. In addition, upon the occurrence of a Special Event (as defined herein), unless the Subordinated Debentures are redeemed in the limited circumstances described herein, Illinois Power Financing I shall be terminated, with the result that the Subordinated Debentures will be distributed to the holders of the Preferred Securities, on a *pro rata* basis, in lieu of any cash distribution. See "Description of the Preferred Securities — Special Event Redemption or Distribution." In the case of the occurrence of a Special Event that is a Tax Event, Illinois Power will have the right in certain circumstances to redeem the Subordinated Debentures, which would result in the redemption by Illinois Power Financing I of Trust Securities in the same amount on a *pro rata* basis. If the Subordinated Debentures are distributed to the holders of the Preferred Securities, Illinois Power will use its best efforts to have the Subordinated Debentures listed on the New York Stock Exchange or on such other exchange as the Preferred Securities are then listed. See "Description of the Preferred Securities — Special Event Redemption or Distribution" and "Description of the Subordinated Debentures."

In the event of the involuntary or voluntary dissolution, winding up or termination of Illinois Power Financing I, the holders of the Preferred Securities will be entitled to receive for each Preferred Security a liquidation amount of \$25 plus accrued and unpaid distributions thereon (including interest thereon) to the date of payment, unless, in connection with such dissolution winding up or termination, the Subordinated Debentures are distributed to the holders of the Preferred Securities. See "Description of the Preferred Securities — Liquidation Distribution Upon Termination."

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

### AVAILABLE INFORMATION

Illinois Power is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, information statements and other information with the Securities and Exchange Commission (the "Commission"). Reports, information statements and other information filed by Illinois Power with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices located at Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661 and at the 13th Floor, Seven World Trade Center, New York, New York 10048. Copies of such material may be obtained from the public reference section of the Commission, 450 Fifth Street, N.W. Washington, D.C. 20549, at prescribed rates. Such reports, information statements and other information concerning Illinois Power may also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005 and the Chicago Stock Exchange, 440 South LaSalle Street, Chicago, Illinois 60605, on which exchanges certain of Illinois Power's securities are listed. In addition, such reports, information statements and other information concerning Illinois Power can be inspected at the principal office of Illinois Power, 500 South 27th Street, Decatur, Illinois 62525.

This Prospectus does not contain all the information set forth in the Registration Statement on Form S-3 (together with all amendments and exhibits thereto, the "Registration Statement"), which Illinois Power and Illinois Power Financing I have filed with the Commission under the Securities Act of 1933, as amended (the "Securities Act"). Statements contained or incorporated by reference herein concerning the provisions of documents are necessarily summaries of such documents, and each statement is qualified in its entirety by reference to the Registration Statement.

No separate financial statements of Illinois Power Financing I have been included herein. Illinois Power and Illinois Power Financing I do not consider that such financial statements would be material to holders of Preferred Securities because Illinois Power Financing I is a newly formed special purpose entity, has no operating history and no independent operations and is not engaged in, and does not propose to engage in, any activity other than as set forth below. See "Illinois Power Financing I."

### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents heretofore filed by Illinois Power with the Commission pursuant to the Exchange Act are incorporated herein by reference:

1. Illinois Power's Annual Report on Form 10-K for the year ended December 31, 1994;
2. Illinois Power's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1995, June 30, 1995 and September 30, 1995; and
3. Illinois Power's Current Report on Form 8-K dated August 11, 1995.

All documents subsequently filed by Illinois Power pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of the offering of the Preferred Securities offered hereby, shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Illinois Power will provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written or oral request of such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents which are not specifically incorporated by reference into the information that this Prospectus incorporates. Request for such copies should be directed to Ms. Cynthia G. Steward, Controller, Illinois Power Company, 500 South 27th Street, Decatur, Illinois 62525, telephone number (217) 424-6600.

## PROSPECTUS SUMMARY

*The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus.*

**Preferred Securities Offered.** 4,000,000 8% Trust Originated Preferred Securities evidencing preferred undivided beneficial interests in the assets of Illinois Power Financing I are offered hereby. Holders of the Preferred Securities are entitled to receive cumulative cash distributions at an annual rate of 8% of the liquidation amount of \$25 per Preferred Security, accruing from the date of original issuance and payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on March 31, 1996. The distribution rate and the distribution and other payment dates for the Preferred Securities will correspond to the interest rate and interest and other payment dates on the Subordinated Debentures, which will be the sole assets of Illinois Power Financing I. As a result, if principal or interest is not paid on the Subordinated Debentures, no amounts will be paid on the Preferred Securities. See "Description of the Preferred Securities."

**Subordinated Debentures.** Illinois Power Financing I will invest the proceeds from the issuance of the Preferred Securities and Common Securities in an equivalent amount of 8% Subordinated Debentures due January 31, 2045 of Illinois Power. The Subordinated Debentures will be subordinate and junior in right of payment to all Senior Indebtedness of Illinois Power. See "Description of the Subordinated Debentures — Subordination."

**Preferred Securities Guarantee.** Payment of distributions out of moneys held by Illinois Power Financing I, and payments on termination of Illinois Power Financing I or the redemption of Preferred Securities are guaranteed by Illinois Power to the extent Illinois Power Financing I has funds available therefor. If Illinois Power does not make principal or interest payments on the Subordinated Debentures, Illinois Power Financing I will not have sufficient funds to make distributions on the Preferred Securities, in which event the Guarantee will not apply to such distributions until Illinois Power Financing I has sufficient funds available therefor. See "Description of the Preferred Securities Guarantee" and "Effect of Obligations Under the Subordinated Debentures and the Guarantee" herein. The obligations of Illinois Power under the Guarantee are subordinate and junior in right of payment to all other liabilities of Illinois Power and will rank *pari passu* with the most senior preferred stock issued by Illinois Power. See "Risk Factors — Ranking of Subordinate Obligations Under the Guarantee and Subordinated Debentures" and "Description of the Preferred Securities Guarantee."

**Interest Deferral.** Illinois Power has the right to defer payments of interest on the Subordinated Debentures by extending the interest payment period on the Subordinated Debentures, at any time, for up to 20 consecutive quarters. If interest payments on the Subordinated Debentures are so deferred, distributions on the Preferred Securities will also be deferred. During any such deferral, distributions will continue to accrue with interest thereon (to the extent permitted by law) as described herein. There could be multiple Extension Periods of varying lengths throughout the term of the Subordinated Debentures. During an Extension Period, holders of Preferred Securities will be required to include deferred interest income in their gross income in advance of receipt of the cash interest payments attributable thereto. See "Description of the Preferred Securities — Voting Rights," "Description of the Subordinated Debentures — Option to Extend Interest Payment Period" and "United States Federal Income Taxation — Original Issue Discount," and "— Market Discount and Bond Premium."

**Redemption.** The Subordinated Debentures are redeemable by Illinois Power (in whole or in part) from time to time, on or after January 31, 2001 or at any time in certain circumstances upon the occurrence of a Tax Event. If the Subordinated Debentures are redeemed, Illinois Power Financing I must redeem Trust Securities having an aggregate liquidation amount equal to the aggregate principal amount of Subordinated Debentures so redeemed. The Preferred Securities will be redeemed upon maturity of the Subordinated Debentures. See "Description of the Preferred Securities — Mandatory Redemption."

## RISK FACTORS

Prospective purchasers of Preferred Securities should carefully review the information contained elsewhere in this Prospectus and should particularly consider the following matters.

### Ranking of Subordinate Obligations Under the Guarantee and Subordinated Debentures

Illinois Power's obligations under the Guarantee are subordinate and junior in right of payment to all liabilities of Illinois Power and *pari passu* with the most senior preferred stock issued, from time to time, if any, by Illinois Power. The obligations of Illinois Power under the Subordinated Debentures are subordinate and junior in right of payment to all present and future Senior Indebtedness of Illinois Power and *pari passu* with obligations to or rights of Illinois Power's general unsecured creditors other than holders of Senior Indebtedness. As of September 30, 1995, Senior Indebtedness aggregated approximately \$2.2 billion. There are no terms in the Preferred Securities, the Subordinated Debentures or the Guarantee that limit Illinois Power's ability to incur additional indebtedness, including indebtedness that ranks senior to the Subordinated Debentures and the Guarantee. See "Description of Preferred Securities Guarantee — Status of the Guarantee" and "Description of the Subordinated Debentures — Subordination" herein.

### Rights Under the Guarantee

The Guarantee will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). Wilmington Trust Company will act as indenture trustee under the Guarantee for the purposes of compliance with the provisions of the Trust Indenture Act (the "Guarantee Trustee"). The Guarantee Trustee will hold the Guarantee for the benefit of the holders of the Preferred Securities.

The Guarantee guarantees to the holders of the Preferred Securities the payment of (i) any accrued and unpaid distributions that are required to be paid on the Preferred Securities, to the extent Illinois Power Financing I has funds available therefor, (ii) the Redemption Price, including all accrued and unpaid distributions with respect to Preferred Securities called for redemption by Illinois Power Financing I, to the extent Illinois Power Financing I has funds available therefor, and (iii) upon a voluntary or involuntary dissolution, winding-up or termination of Illinois Power Financing I (other than in connection with the distribution of Subordinated Debentures to the holders of Preferred Securities or a redemption of all the Preferred Securities), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities to the date of the payment to the extent Illinois Power Financing I has funds available therefor or (b) the amount of assets of Illinois Power Financing I remaining available for distribution to holders of the Preferred Securities upon termination of Illinois Power Financing I. The holders of a majority in liquidation amount of the Preferred Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under the Guarantee. In addition, any holder of Preferred Securities may institute a legal proceeding directly against Illinois Power to enforce such holder's rights under the Guarantee without first instituting a legal proceeding against Illinois Power Financing I, the Guarantee Trustee or any other person or entity. If Illinois Power were to default on its obligation to pay amounts payable on the Subordinated Debentures, Illinois Power Financing I would lack available funds for the payment of distributions or amounts payable on redemption of the Preferred Securities or otherwise, and, in such event, holders of the Preferred Securities would not be able to rely upon the Guarantee for payment of such amounts. Instead, holders of the Preferred Securities would either (i) rely on the enforcement by the Property Trustee of its rights as registered holder of the Subordinated Debentures against Illinois Power pursuant to the terms of the Subordinated Debentures or (ii) enforce the Property Trustee's rights directly against Illinois Power. See "Description of the Preferred Securities Guarantee" and "Description of the Subordinated Debentures." The Declaration provides that each holder of Preferred Securities, by acceptance thereof, agrees to the provisions of the Guarantee, including the subordination provisions thereof, and the Indenture (as defined herein).



### Enforcement of Certain Rights by Holders of Preferred Securities

If (i) Illinois Power Financing I fails to pay distributions in full on the Preferred Securities for six consecutive quarterly distribution periods or (ii) a Declaration Event of Default (as defined herein) occurs and is continuing, then the holders of Preferred Securities would rely on the enforcement by the Property Trustee (as defined herein) of its rights as a holder of the Subordinated Debentures against Illinois Power. In addition, the holders of a majority in liquidation amount of the Preferred Securities will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Property Trustee or to direct the exercise of any trust or power conferred upon the Property Trustee under the Declaration, including the right to direct the Property Trustee to exercise the remedies available to it as a holder of the Subordinated Debentures. If the Property Trustee fails to enforce its rights under the Subordinated Debentures or the Declaration, any holder of Preferred Securities may institute a legal proceeding directly against Illinois Power to enforce the Property Trustee's rights under the Subordinated Debentures or the Declaration without first instituting a legal proceeding against the Property Trustee or any other person or entity. In addition, if Illinois Power fails to make interest or other payments on the Subordinated Debentures when due, any holder of Preferred Securities may enforce the Property Trustee's rights directly against Illinois Power.

### Option to Extend Interest Payment Period

Illinois Power has the right under the Indenture to defer payments of interest on the Subordinated Debentures by extending the interest payment period at any time, and from time to time, on the Subordinated Debentures. As a consequence of such an extension, quarterly distributions on the Preferred Securities would be deferred (but despite such deferral would continue to accrue with interest thereon compounded quarterly to the extent permitted by applicable law) by Illinois Power Financing I during any such Extension Period. Such right to extend the interest payment period for the Subordinated Debentures is limited to a period not exceeding 20 consecutive quarters. In the event that Illinois Power exercises this right to defer interest payments, then (a) Illinois Power shall not declare or pay dividends on, or make a distribution with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock, provided, however, Illinois Power may declare and pay a stock dividend where the dividend stock is the same stock as that on which the dividend is being paid, (b) Illinois Power shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees) issued by Illinois Power which rank *pari passu* with or junior to the Subordinated Debentures, and (c) Illinois Power shall not make any guarantee payments with respect to the foregoing (other than pursuant to the Guarantee). Prior to the termination of any such Extension Period, Illinois Power may further extend the interest payment period; provided, that such Extension Period, together with all such previous and further extensions thereof, may not exceed 20 consecutive quarters. Upon the termination of any Extension Period and the payment of all amounts then due, Illinois Power may commence a new Extension Period, subject to the above requirements. See "Description of the Preferred Securities — Distributions" and "Description of the Subordinated Debentures — Option to Extend Interest Payment Period."

Because Illinois Power has the right to extend the interest payment period for the Subordinated Debentures, the Preferred Securities will be treated as having been issued with original issue discount ("OID") for United States federal income tax purposes. Should Illinois Power exercise its right to defer payments of interest by extending the interest payment period, each holder of Preferred Securities will continue to accrue income (as OID) in respect of the deferred interest allocable to its Preferred Securities for United States federal income tax purposes, which will be allocated, but not distributed, to holders of record of Preferred Securities. As a result, each such holder of Preferred Securities will recognize income for United States federal income tax purposes in advance of the receipt of cash, regardless of their method of accounting, and will not receive the cash from Illinois Power Financing I related to such income if such holder disposes of its Preferred Securities prior to the record date for the date on which distributions of such amounts are made. Illinois Power has no current intention of exercising its right to defer payments of interest by extending the interest payment period on the Subordinated Debentures. However, should Illinois Power determine to exercise such right in the future, the market price of the Preferred Securities is likely to be affected. A holder

that disposes of its Preferred Securities during an Extension Period, therefore, might not receive the same return on its investment as a holder that continues to hold its Preferred Securities. In addition, as a result of the existence of Illinois Power's right to defer interest payments, the market price of the Preferred Securities (which represent an undivided beneficial interest in the Subordinated Debentures) may be more volatile than other securities on which OID accrues that do not have such rights. See "United States Federal Income Taxation — Original Issue Discount."

#### Special Event Redemption or Distribution

Upon the occurrence of a Special Event, Illinois Power Financing I shall be terminated, except in the limited circumstance described below, with the result that, after satisfaction of liabilities to creditors, the Subordinated Debentures would be distributed to the holders of the Trust Securities in connection with the termination of Illinois Power Financing I. In the case of a Special Event that is a Tax Event, in certain circumstances Illinois Power shall have the right to redeem the Subordinated Debentures, in whole or in part, in lieu of a distribution of the Subordinated Debentures by Illinois Power Financing I; in which event Illinois Power Financing I will redeem the Trust Securities on a *pro rata* basis to the same extent as the Subordinated Debentures are redeemed by Illinois Power. See "Description of the Preferred Securities — Special Event Redemption or Distribution."

There can be no assurance as to the market prices for the Preferred Securities or the Subordinated Debentures that may be distributed in exchange for Preferred Securities if a termination of Illinois Power Financing I were to occur. Accordingly, the Preferred Securities that an investor may purchase, whether pursuant to the offer made hereby or in the secondary market, or the Subordinated Debentures that a holder of Preferred Securities may receive on termination of Illinois Power Financing I, may trade at a discount to the price that the investor paid to purchase the Preferred Securities offered hereby. Because holders of Preferred Securities may receive Subordinated Debentures upon the occurrence of a Special Event, prospective purchasers of Preferred Securities are also making an investment decision with regard to the Subordinated Debentures and should carefully review all the information regarding the Subordinated Debentures contained herein. See "Description of the Preferred Securities — Special Event Redemption or Distribution" and "Description of the Subordinated Debentures — General."

#### Proposed Tax Law Changes

On December 7, 1995, the U.S. Treasury Department proposed a series of tax law changes that would, among other things, prevent companies from deducting interest on debt instruments with a maturity of more than 40 years and on instruments with a maximum term of more than 20 years which are not shown as indebtedness on the consolidated balance sheet of the issuer. Either of these proposals, if enacted, would prevent Illinois Power from deducting interest paid on the Subordinated Debentures. However, on December 19, 1995, the Treasury Department stated that based on input it had received to date, it would recommend to Congress that transitional relief from the proposed changes be granted for financial instruments that are issued pursuant to a registration statement that was filed with the Commission on or before December 7, 1995. Illinois Power cannot predict whether the proposed tax law changes will become law. However, if the proposed tax law changes and the proposed transitional relief are enacted, Illinois Power should be able to deduct interest on the Subordinated Debentures. If legislation is enacted limiting, in whole or in part, the deductibility by Illinois Power of interest on the Subordinated Debentures for United States federal income tax purposes, such enactment would be a Tax Event. Under certain circumstances following a Tax Event, Illinois Power may cause the Subordinated Debentures and the Preferred Securities to be redeemed. See "Description of the Preferred Securities — Special Event Redemption or Distribution." It is expected that the December 7, 1995 proposed tax law changes, if enacted, would not alter the United States federal income tax consequences of the purchase, ownership and disposition of the Preferred Securities. See "United States Federal Income Taxation."

### Limited Voting Rights

Holders of Preferred Securities will have limited voting rights and will not be entitled to vote to appoint, remove or replace, or to increase or decrease the number of, Illinois Power Trustees (as defined herein), which voting rights are vested exclusively in the holder of the Common Securities. See "Description of the Preferred Securities — Voting Rights."

### Trading Price

The Preferred Securities may trade at a price that does not fully reflect the value of accrued but unpaid interest with respect to the underlying Subordinated Debentures. A holder who disposes of his Preferred Securities between record dates for payments of distributions thereon will be required to include accrued but unpaid interest on the Subordinated Debentures through the date of disposition in income as ordinary income (i.e., OID), and to add such amount to his adjusted tax basis in his *pro rata* share of the underlying Subordinated Debentures deemed disposed of. To the extent the selling price is less than the holder's adjusted tax basis (which will include, in the form of OID, all accrued but unpaid interest), a holder will recognize a capital loss. Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for United States federal income tax purposes. See "United States Federal Income Taxation — Original Issue Discount" and "— Sales of Preferred Securities."

## ILLINOIS POWER COMPANY

Illinois Power was incorporated under the laws of Illinois on May 25, 1923. Effective May 27, 1994, Illinois Power became a subsidiary of Illinova Corporation ("Illinova"), an exempt holding company under the Public Utility Holding Company Act of 1935, as amended, pursuant to a merger in which each outstanding share of Illinois Power's Common Stock was converted into one share of common stock of Illinova. Illinois Power is engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in the State of Illinois. Its service area is a widely diversified industrial and agricultural area comprising approximately 15,000 square miles in northern, central and southern Illinois. Electric service is provided at retail to 310 incorporated municipalities, adjacent suburban and rural areas and numerous unincorporated municipalities having an estimated aggregate population of 1,265,000. Gas service is provided to 257 incorporated municipalities, adjacent suburban areas and numerous unincorporated municipalities having an estimated aggregate population of 920,000. The larger cities served include Decatur, East St. Louis (gas only), Champaign, Danville, Belleville, Granite City, Bloomington (electric only), Galesburg, Urbana and Normal (electric only). The executive offices of Illinois Power are located at 500 South 27th Street, Decatur, Illinois 62525, and Illinois Power's telephone number is (217) 424-6600.

## ILLINOIS POWER FINANCING I

Illinois Power Financing I is a statutory business trust formed under Delaware law pursuant to (i) a declaration of trust, dated as of October 17, 1995, executed by Illinois Power, as sponsor (the "Sponsor"), and the trustees of Illinois Power Financing I (the "Illinois Power Trustees") and (ii) the filing of a certificate of trust with the Secretary of State of the State of Delaware on October 17, 1995. Such declaration will be amended and restated in its entirety (as so amended and restated, the "Declaration") substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part. The Declaration will be qualified as an indenture under the Trust Indenture Act. Upon issuance of the Preferred Securities, the purchasers thereof will own all of the Preferred Securities. See "Description of the Preferred Securities — Book-Entry Only Issuance — The Depository Trust Company." Illinois Power will directly or indirectly acquire Common Securities in an aggregate liquidation amount equal to approximately 3% of the total capital of Illinois Power Financing I. Illinois Power Financing I exists for the exclusive purposes of (i) issuing the Trust Securities representing undivided beneficial interests in the assets of Illinois Power Financing I, (ii) investing the gross proceeds of the Trust Securities in the Subordinated Debentures and (iii) engaging in only those other activities necessary, convenient or incidental thereto. Illinois Power Financing I has a term of approximately 54 years, but may terminate earlier as provided in the Declaration.

Pursuant to the Declaration, the number of Illinois Power Trustees will initially be three. Two of the Illinois Power Trustees (the "Regular Trustees") will be persons who are employees or officers of or who are affiliated with Illinois Power. The third trustee will be a financial institution that maintains its principal place of business in the State of Delaware and is unaffiliated with Illinois Power, which trustee will serve as property trustee under the Declaration and as indenture trustee for the purposes of compliance with the provisions of the Trust Indenture Act (the "Property Trustee"). Initially, Wilmington Trust Company, a Delaware banking corporation, will be the Property Trustee until removed or replaced by the holder of the Common Securities. Wilmington Trust Company will also act as indenture trustee under the Guarantee for the purposes of compliance with the provisions of the Trust Indenture Act (the "Guarantee Trustee"). See "Description of the Preferred Securities Guarantee."

The Property Trustee will hold title to the Subordinated Debentures for the benefit of the holders of the Trust Securities, and the Property Trustee will have the power to exercise all rights, powers and privileges under the Indenture (as defined herein) as the holder of the Subordinated Debentures. In addition, the Property Trustee will maintain exclusive control of a segregated non-interest bearing bank account (the "Property Account") to hold all payments made in respect of the Subordinated Debentures for the benefit of the holders of the Trust Securities. The Property Trustee will make payments of distributions and payments on liquidation, redemption and otherwise to the holders of the Trust Securities out of funds from the Property Account. The Guarantee Trustee will hold the Guarantee for the benefit of the holders of the Preferred Securities. Illinois Power, as the direct or indirect holder of all the Common Securities, will have the right to appoint, remove or replace any Illinois Power Trustee and to increase or decrease the number of Illinois Power Trustees; provided, that (i) the number of Illinois Power Trustees shall be at least three, and (ii) at least two shall be Regular Trustees. Illinois Power will pay all fees and expenses related to Illinois Power Financing I and the offering of the Trust Securities. See "Description of the Subordinated Debentures — Miscellaneous."

The rights of the holders of the Preferred Securities, including rights to information and voting rights, are set forth in the Declaration, the Delaware Business Trust Act (the "Trust Act") and the Trust Indenture Act. See "Description of the Preferred Securities."

**SUMMARY FINANCIAL INFORMATION OF ILLINOIS POWER**  
(Thousands except per share amounts and ratios)

The following information is qualified in its entirety by the information appearing elsewhere in this Prospectus and by the information and financial statements incorporated in this Prospectus by reference.

	Year Ended December 31,					12 Months Ended September 30, 1995
	1990	1991	1992	1993(a)	1994(a)	(Unaudited) (a) (b)
<b>Income Statement Data</b>						
Operating Revenues .....	\$1,469,480	\$1,474,905	\$1,479,449	\$1,581,190	\$1,589,465	\$1,624,032
Net Income (Loss) .....	(78,484)	109,244	122,088	(56,038)	180,242	205,357
Preferred Dividend Requirements .....	36,339	30,866	28,354	26,123	24,834	25,827
Net Income (Loss) Applicable to Common Stock .....	(115,323)	78,378	93,234	(82,161)	161,767(f)	185,889(f)
Ratio of Earnings to Fixed Charges(c) .....	0.70(d)	1.85	2.02	0.80(d)	2.75	2.92
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements(c) .....	0.60(e)	1.48	1.61	0.70(e)	2.21	2.40
<b>Capitalization</b>						
Long-Term Debt .....					\$1,738,664	\$1,738,664
Preferred Stock (not subject to mandatory redemption) .....					221,512	121,512
Company-obligated Mandatorily Redeemable Preferred Securities of Illinois Power Capital, L.P.(g) .....					97,000	97,000
Company-obligated Mandatorily Redeemable Preferred Securities of Illinois Power Financing I(h) .....					—	100,000
Common Stock Equity .....					1,516,921	1,516,921
Total Capitalization .....					\$3,574,097	\$3,574,097

- (a) Subsequent to Illinois Power's merger with Illinova, net assets of Illinova Generating Company (formerly IP Group, Inc.) were transferred in the form of a dividend from the Company to Illinova. The income statement data contained herein has been restated to reflect the financial results of Illinois Power's current operations.
- (b) In the opinion of Illinois Power, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited twelve-month period ended September 30, 1995, have been made.
- (c) Earnings used in the calculation of the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividend requirements include the allowance for funds used during construction and the deferred financing costs associated with Illinois Power's Clinton Power Station and are before deduction of income taxes and fixed charges. Fixed charges include interest on long-term debt, related amortization of debt discount, premium, and expense, other interest and that portion of rent expense which is estimated to be representative of the interest component. Preferred stock dividend requirements have been increased to an amount representing the pre-tax earnings required to cover such dividend requirements.
- (d) The ratios of earnings to fixed charges for the years ended December 31, 1993 and 1990 of 0.80 and 0.70, respectively, indicate that earnings were inadequate to cover fixed charges. The dollar amounts of the coverage deficiency for the years ended 1993 and 1990 were approximately \$37 million and \$68 million, respectively. Excluding the loss on disallowed plant costs of \$200 million, net of income taxes, recorded in the third quarter of 1993, the ratio of earnings to fixed charges would have been 2.25 for the year ended 1993. Excluding the loss on disallowed plant costs of \$137 million, net of income taxes, recorded in the fourth quarter of 1990, the ratio of earnings to fixed charges would have been 1.41 for the year ended 1990.
- (e) The ratios of earnings to combined fixed charges and preferred stock dividend requirements for the years ended December 31, 1993 and 1990 of 0.70 and 0.60, respectively, indicate that earnings were inadequate to cover combined fixed charges and preferred stock dividend requirements. The dollar amounts of the coverage deficiency for the years ended 1993 and 1990 were approximately \$63 million and \$105 million, respectively. Excluding the loss on disallowed plant costs of \$200 million, net of income taxes, recorded in the third quarter of 1993, the ratio of earnings to combined fixed charges and preferred stock dividend requirements would have been 1.83 for the year ended 1993. Excluding the loss on disallowed plant costs of \$137 million, net of income taxes, recorded in the fourth quarter of 1990, the ratio of earnings to combined fixed charges and preferred stock dividend requirements would have been 1.09 for the year ended 1990.
- (f) Includes \$6 million excess of carrying amount over consideration paid for redeemed preferred stock.
- (g) The sole asset of Illinois Power Capital, L.P. is the \$100 million principal amount of 9.45% Subordinated Deferrable Interest Debentures due 2043 of Illinois Power.
- (h) As described in this Prospectus, the sole asset of Illinois Power Financing I will be the \$103.1 million principal amount of 8% Junior Subordinated Deferrable Interest Debentures due 2045 of Illinois Power.

## ACCOUNTING TREATMENT

The financial statements of Illinois Power Financing I will be reflected in Illinois Power's consolidated financial statements with the Preferred Securities shown as Company-obligated mandatorily redeemable preferred securities of Illinois Power Financing I holding subordinated debentures of Illinois Power.

## USE OF PROCEEDS

All of the proceeds from the sale of the Preferred Securities will be invested by Illinois Power Financing I in Subordinated Debentures of Illinois Power issued pursuant to the Indenture therefor described herein and ultimately will be used by Illinois Power to repay short-term indebtedness which matures at varying dates on or before March 1, 1996 and bears interest as of December 27, 1995 at a weighted average interest rate of approximately 6% per annum. The indebtedness was incurred to redeem all outstanding shares of the Company's 8.24% Serial Preferred Stock, \$50 par value, at a redemption price of \$51.90 per share, all outstanding shares of its 8.00% Serial Preferred Stock, \$50 par value, at a redemption price of \$52.29 per share, and all outstanding shares of its 7.56% Serial Preferred Stock, \$50 par value, at a redemption price of \$51.685 per share, together in each case, with any accrued and unpaid dividends to the date of redemption.

## DESCRIPTION OF THE PREFERRED SECURITIES

The Preferred Securities will be issued pursuant to the terms of the Declaration. The Declaration will be qualified as an indenture under the Trust Indenture Act. The Property Trustee, Wilmington Trust Company, will act as indenture trustee under the Declaration for purposes of compliance with the provisions of the Trust Indenture Act. The terms of the Preferred Securities will include those stated in the Declaration and those made part of the Declaration by the Trust Indenture Act. The following summary of the principal terms and provisions of the Preferred Securities does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Declaration (a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part) and the Trust Indenture Act.

### General

The Declaration authorizes the Regular Trustees to issue on behalf of Illinois Power Financing I the Trust Securities, which represent undivided beneficial interests in the assets of Illinois Power Financing I. All of the Common Securities will be owned, directly or indirectly, by Illinois Power. The Common Securities rank *pari passu*, and payments will be made thereon on a *pro rata* basis, with the Preferred Securities, except that upon the occurrence of a Declaration Event of Default, the rights of the holders of the Common Securities to receive payment of periodic distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the Preferred Securities. The Declaration does not permit the issuance by Illinois Power Financing I of any securities other than the Trust Securities or the incurrence of any indebtedness by Illinois Power Financing I. Pursuant to the Declaration, the Property Trustee will own the Subordinated Debentures purchased by Illinois Power Financing I for the benefit of the holders of the Trust Securities. The payment of distributions out of money held by Illinois Power Financing I, and payments upon redemption of the Trust Securities or termination of Illinois Power Financing I, are guaranteed by Illinois Power to the extent described under "Description of the Preferred Securities Guarantee." The Guarantee will be held by Wilmington Trust Company, the Guarantee Trustee, for the benefit of the holders of the Preferred Securities. The Guarantee does not cover payment of distributions when Illinois Power Financing I does not have sufficient available funds to pay such distributions. In such event, a remedy of a holder of Preferred Securities is to vote to direct the Property Trustee to enforce the Property Trustee's rights under the Subordinated Debentures. See "Description of the Preferred Securities — Voting Rights."

## Distributions

Distributions on the Preferred Securities will be fixed at a rate per annum of 8% of the stated liquidation amount of \$25 per Preferred Security. Distributions in arrears for more than one quarter will bear interest thereon at the rate per annum of 8% thereof compounded quarterly. The term "distribution" as used herein includes any such interest payable unless otherwise stated. The amount of distributions payable for any period will be computed on the basis of a 360-day year of twelve 30-day months.

- Distributions on the Preferred Securities will be cumulative, will accrue from January 17, 1996, and will be payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year commencing March 31, 1996, when, as and if funds are available and determined to be so payable by the Property Trustee, except as otherwise described below.

Illinois Power has the right under the Indenture to defer payments of interest on the Subordinated Debentures by extending the interest payment period from time to time on the Subordinated Debentures which, if exercised, would defer quarterly distributions on the Preferred Securities (though such distribution would continue to accrue with interest since interest would continue to accrue on the Subordinated Debentures) during any such Extension Period. Such right to extend the interest payment period for the Subordinated Debentures is limited to a period not exceeding 20 consecutive quarters provided that no Extension Period shall last beyond the date of maturity of the Subordinated Debentures. In the event that Illinois Power exercises this right, then (a) Illinois Power shall not declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to any of its capital stock, and (b) Illinois Power shall not make any payment of interest, principal or premium, in any, on or repay, repurchase or redeem any debt securities issued by Illinois Power that rank *pari passu* with or junior to such Subordinated Debentures. Prior to the termination of any such Extension Period, Illinois Power may further extend the interest payment period; provided, that such Extension Period, together with all such previous and further extensions thereof, may not exceed 20 consecutive quarters or extend beyond the maturity date of the Subordinated Debentures. Upon the termination of any Extension Period and the payment of all amounts then due, Illinois Power may select a new Extension Period, subject to the above requirements. See "Description of the Subordinated Debentures — Interest" and "— Option to Extend Interest Payment Period." If distributions are deferred, the deferred distributions and accrued interest thereon shall be paid to holders of record of the Preferred Securities as they appear on the books and records of Illinois Power Financing I on the record date next following the termination of such deferral period.

Distributions on the Preferred Securities must be paid on the dates payable to the extent that Illinois Power Financing I has funds available for the payment of such distributions in the Property Account. Illinois Power Financing I's funds available for distribution to the holders of the Preferred Securities will be limited to payments received from Illinois Power on the Subordinated Debentures. See "Description of the Subordinated Debentures." The payment of distributions out of moneys held by Illinois Power Financing I is guaranteed by Illinois Power to the extent set forth under "Description of the Preferred Securities Guarantee."

Distributions on the Preferred Securities will be payable to the holders thereof as they appear on the books and records of Illinois Power Financing I on the relevant record dates, which, as long as the Preferred Securities remain in book-entry only form, will be one Business Day (as defined herein) prior to the relevant payment dates. Such distributions will be paid through the Property Trustee who will hold amounts received in respect of the Subordinated Debentures in the Property Account for the benefit of the holders of the Trust Securities. Subject to any applicable laws and regulations and the provisions of the Declaration, each such payment will be made as described under "Book-Entry Only Issuance — The Depository Trust Company" below. In the event that the Preferred Securities do not continue to remain in book-entry only form, the relevant record dates for the Preferred Securities shall conform to the rules of any securities exchange on which the securities are listed and, if none, shall be selected by the Regular Trustees, which dates shall be at least one Business Day but less than 60 Business Days prior to the relevant payment dates. In the event that any date on which distributions are to be made on the Preferred Securities is not a Business Day, then payment of the distributions payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding

Business Day, in each case with the same force and effect as if made on such date. A "Business Day" shall mean any day other than Saturday, Sunday or any other day on which banking institutions in New York City (in the State of New York) are permitted or required by any applicable law to close.

#### **Mandatory Redemption**

The Subordinated Debentures will mature on January 31, 2045, and may be redeemed, in whole or in part, at any time on or after January 31, 2001, or at any time in certain circumstances upon the occurrence of a Tax Event (as defined herein). Upon the repayment of the Subordinated Debentures, whether at maturity or upon redemption, the proceeds from such repayment or payment shall simultaneously be applied to redeem Trust Securities having an aggregate liquidation amount equal to the aggregate principal amount of the Subordinated Debentures so repaid or redeemed at the Redemption Price; provided, that holders of Trust Securities shall be given not less than 30 nor more than 60 days notice of such redemption, except in the case of payments upon maturity. See "Description of the Subordinated Debentures — Optional Redemption." In the event that fewer than all of the outstanding Preferred Securities are to be redeemed, the Preferred Securities will be redeemed *pro rata* as described under "Book — Entry Only Issuance — The Depository Trust Company" below.

#### **Special Event Redemption or Distribution**

"Tax Event" means that the Regular Trustees shall have received an opinion of a nationally recognized independent tax counsel experienced in such matters (a "Dissolution Tax Opinion") to the effect that, as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to or change in an interpretation or application of such laws or regulations by any legislative body, court, governmental agency or regulatory authority, in each case on or after the date of this Prospectus, there is more than an insubstantial risk that (i) Illinois Power Financing I is or within 90 days will be subject to United States federal income tax with respect to income accrued or received on the Subordinated Debentures, (ii) interest payable to Illinois Power Financing I on the Subordinated Debentures is or within 90 days will not be deductible by Illinois Power for United States federal income tax purposes or (iii) Illinois Power Financing I is or within 90 days will be subject to more than a *de minimis* amount of other taxes, duties or other governmental charges, which change or amendment becomes effective on or after the date of this Prospectus.

"Investment Company Event" means that the Regular Trustees shall have received an opinion from independent counsel experienced in practice under the 1940 Act (as defined herein) to the effect that, as a result of the occurrence of a change in law or regulation or a written change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority (a "Change in 1940 Act Law"), there is more than an insubstantial risk that Illinois Power Financing I is or will be considered an "investment company" which is required to be registered under the Investment Company Act of 1940, as amended (the "1940 Act"), which Change in 1940 Act Law becomes effective on or after the date of this Prospectus.

If, at any time, a Tax Event or an Investment Company Event (each, as defined above, a "Special Event"), shall occur and be continuing, Illinois Power Financing I shall, except in the limited circumstances described below, be terminated with the result that, after satisfaction of liabilities to creditors, the Subordinated Debentures with an aggregate principal amount equal to the aggregate stated liquidation amount of, with an interest rate identical to the distribution rate of, and accrued and unpaid interest equal to accrued and unpaid distributions on, the Trust Securities, would be distributed to the holders of the Trust Securities in liquidation of such holders' interests in Illinois Power Financing I on a *pro rata* basis within 90 days following the occurrence of such Special Event; provided, however, that in the case of the occurrence of a Tax Event, that such termination and distribution shall be conditioned on (i) the Regular Trustees' receipt of an opinion of nationally recognized independent tax counsel experienced in such matters (a "No Recognition Opinion"), which opinion may rely on published revenue rulings of the Internal Revenue Service, to the effect that the holders of the Trust Securities will not recognize any gain or loss for United States federal income tax purposes as a result of such termination of Illinois Power Financing I and such distribution of Subordinated Debentures and (ii) Illinois Power being unable to avoid such Tax Event within such 90-day period by taking